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State of Utah

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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Salt Lake City, Utah 84180-1203
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May 8, 1991

CERTIFIED RETURN RECEIPT
P 074 978 820

Mr. Norman Haslem
Mining Superintendent
Ziegler Chemical & Mineral Corporation
Star Route
Vernal, Utah 84078

Dear Mr. Haslem:

Re: Expiration of Surety, Ziegler Chemical and Mineral Corporation, Gilsonite Mine, M/047/013, Uintah County, Utah

On July 19, 1988, the Board of Oil, Gas and Mining (Board) approved the collateral bond of \$69,100 (1992 dollars) as surety for the Ziegler Chemical and Mineral Corporation (Ziegler) gilsonite operations in Uintah County, Utah. At that time, Ziegler entered into a Collateral Bonding and Indemnity Agreement (Agreement) with the Division of Oil, Gas and Mining (Division). The form of collateral was an Irrevocable Standby Letter of Credit (LOC) with National Westminster Bank USA, 80 Pine Street, New York, NY 10005-1702. The LOC had an original expiration date of May 2, 1988 which was extended to May 2, 1989 and then extended again to May 2, 1990.

The Division has not received notice of any further extensions, as of the date of this letter. On May 3, 1991, Tony Gallegos of the Division contacted National Westminster Bank USA at (212) 602-1240 via telephone. The bank representative informed him that the LOC had expired as of May 2, 1990 and no further action had been taken.

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Under the terms of the Agreement between the Division and Ziegler, page 4, sections:

6. "This Agreement may be terminated upon ninety (90) days prior written notice to the Division if terminated by the Operator or upon ninety (90) days written notice to the Operator if terminated by the Division. Upon such written notification, the Operator will have ninety (90) days to obtain an alternate form of bond to secure reclamation obligations for Permit No. M/047/013 in the same amount as stated in this Agreement or amendments thereto.
7. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the M/047/013 mine permit area.
8. Any breach of the provision of this Agreement will result in the payment of \$69,100 (bond amount) liquidated damages to the Division."

As of this date, Ziegler has not posted an alternative form of bond nor an extension of the original bond and, therefore, is in breach of contract and not in compliance with the provisions of the Utah Mined Land Reclamation Act, Title 40-8-14(5) and Rule R613-004-113(5). By law you are not allowed to operate a large mining operation (over 5 acres of surface disturbance) without an adequate reclamation surety.

The Division hereby directs you to immediately renew the LOC for the original \$69,100 amount, or post an entirely new form of surety. If you elect to post a new form of surety, the Division requires escalation of the surety amount to 1996 dollars. The 1996 escalated dollar amount is \$71,200 (refer to attachment). The original \$69,100 (1992 dollars) reclamation surety will be scheduled for re-evaluation during 1992. It is likely that the surety will need to be adjusted and escalated for another 5-year period at that time. You will need to contact the Division for appropriate supplemental surety forms, should you choose to post a new form of surety at this time. Any change in the amount or form of surety must be approved by the Board of Oil, Gas and Mining.

The Division establishes May 24, 1991 as the deadline to have surety for this operation submitted to this office. Failure to meet this time frame will result in issuance of a Board Order which will result in immediate cessation of all mining

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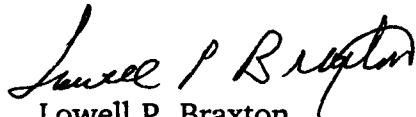
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activities and may require immediate commencement of reclamation on all areas impacted by the mining operation.

Your immediate attention to this matter is advised. Please contact me, Wayne Hedberg, or Tony Gallegos of my staff if you have any questions regarding the content or requirements of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Lowell P. Braxton". The signature is fluid and cursive, with the first name "Lowell" and last name "Braxton" clearly distinguishable.

Lowell P. Braxton
Associate Director, Mining

jb

Attachment

cc: Dianne Nielson, DOGM
Tom Mitchell, AAG
Minerals Staff

M047013.1

SURETY ESTIMATE UPDATE

Ziegler Chemical and Mineral Corporation

Gilsonite Mines M/047/013 Uintah County

Prepared by Utah Division of Oil, Gas & Mining

Last Update May 6, 1991

DESCRIPTION:

- Original reclamation estimate was \$62,569 in 1987 dollars
- Estimate includes 7 mine sites: Independent 3 & 5, Little Bonanza 1, 3, 11, & 12, and also Little Emma 7
- The \$69,100 surety (ILOC) which had been posted was in 1992 dollars
- Escalation factors through 1990 are actual Means Historical Cost Indices

Gilsonite Mines			
<u>CALCULATIONS</u>	YR	ESCAL FACTOR	BOND AMOUNT
$F = P(1 + i)^{*n}$	1977	0.0870	0
	1978	0.0710	\$0
F = Future Sum	1979	0.0860	\$0
P = Present Sum	1980	0.0860	\$0
i = Escalation Factor	1981	0.0991	\$0
n = number of periods	1982	0.0940	\$0
	1983	0.0104	\$0
	1984	0.0092	\$0
	1985	0.0290	\$0
	1986	0.0210	\$0
	1987	0.0195	\$62,569
	1988	0.0181	\$63,701
	1989	0.0177	\$64,829
	1990	0.0077	\$65,328
Three Yr Average = 1.45	1991	0.0145	\$66,275
Used to Project 5 Yrs	1992	0.0145	\$67,236
Into the Future	1993	0.0145	\$68,211
From the Year 1991	1994	0.0145	\$69,200
	1995	0.0145	\$70,204
	1996	0.0145	\$71,222
Updated Surety Amount Rounded (1996 \$)			<u>\$71,200</u>